BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2020-3-E

In the Matter of:	)	
	)	
Annual Review of Base Rates for Fuel	)	
Costs of Duke Energy Carolinas,	)	**LATE-FILED EXHIBIT NO. 5 OF**
LLC, Decreasing Residential and	)	**DUKE ENERGY CAROLINAS, LLC**
Non-Residential Rates	)	
______________________________	)	

Duke Energy Carolinas, LLC ("DEC" or the "Company") was asked to provide a late-filed exhibit supporting the prudence of the coal contract buyouts discussed in John Verderame's direct testimony and makes this late-filed exhibit in response thereto.

As a result of extremely low natural gas prices, mild winter weather, and load reduction from the COVID-19 pandemic, the Company was forced to make a decision about whether to take and burn coal out of dispatch, or to maximize opportunities to save customers money by generating more electricity with natural gas during a period of unusual burn activity driven by the pandemic. Burning coal out of dispatch would have cost customers more. Ultimately, due to the Company's actions described below, customers saved approximately $22 million as compared to the alternative of running coal plants out of economic merit. The Company accomplished these savings by buying out coal contracts after confirming that was the best option for customers.

Those actions are described in more detail below.

As the Commission is well aware, the COVID-19 pandemic has had an unprecedented and unanticipated impact on forecasted load and other assumptions that necessarily drive fuel procurement decisions. Influenced by the operational realities from the pandemic, the Company burned significantly less coal than anticipated as customers benefited from greater utilization of lower-cost natural gas. Given the reduction in actual and forecasted coal usage, the Company evaluated alternatives to reduce its coal contract obligations that exceeded its consumption and storage capabilities. The Company exercised and exhausted its rights to flex down contractual obligations, defer tons, and optimize off-site storage opportunities at no additional cost to the customer in order to address the excess coal left due to significant declines in demand related to COVID-19 related shut-downs along with the shifting of generation to natural gas to take advantage of lower priced gas. Only after such evaluation did the Company pursue buyout. All mitigation options chosen by the Company, in total combination (including the buyout) resulted in the lowest cost and most reasonable mitigation outcome for customers.

The options available to the Company included the following:

- **Burning coal out of economic merit:** The Company could have decremented the price of coal in order to assign it an artificially low dispatch price and increase burns. The total cost of this option was $46.8MM for DEC on a system-wide basis.

- **Buying out of the contracts:** Another option was to buy out of existing coal contracts. The total cost of this option was $24.8MM for DEC on a system-wide basis.

The estimated cost differential between the two options resulted in the Company negotiating buyouts. Prior to updating the estimated Carolinas system costs, the WACI (Weighted Average Cost of Inventory) for both coal and gas were updated as of March 26, 2020. The table below outlines the estimated cost between the base and decrement cases on a DEC and Duke Energy Progress, LLC system-wide basis.

	Base Case + Buyout	Base Case + Decrement	Delta
System Cost	$2,201 MM	$2,262 MM	-$61 MM
Buyout Price	$39 MM	$0	
Total Cost	$2,240 MM	$2,262 MM	-$22 MM

The Company also considered reselling excess inventory to other market participants. However, given the distressed state of the coal market, losses on this option would have been significant based on the delta between the highest indicative bids for coal received, which were extremely low (in the low $20s or lower), versus the average Central Appalachian contract commodity price in the low to mid $50s. Further, given depressed demand, and after exploring this option, the Company determined it would be unable to resell all of its excess inventory, so—even if it had been economic—this would have only been an incomplete solution.

Another alternative was to calculate damages based on the failure of the Company to accept shipments based on the terms of the Company's contracts. However, under the calculation formula, losses under this alternative would have been significant based on the delta between the expected resale price for the shipper in the low $20s and average Central Appalachian contract prices in the low to mid $50s. Additionally, under this alternative, suppliers could have placed the contracts in default requiring payment on the entire remaining obligation and terminating the remaining contract. This is a reciprocal contract provision meant to provide protections for both buyer and seller.

Accordingly, based on the above, these costs are reasonable and prudent and appropriate for recovery.